

## LEADERS CAN LEARN FROM DRUYUN'S ETHICAL LAPSES AND THEIR CONSEQUENCES

BY

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USAWC CLASS OF 2008

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U.S. Army War College, Carlisle Barracks, PA 17013-5050

Report Documentation Page			Form Approved OMB No. 0704-0188		
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE <b>15 MAR 2008</b>		2. REPORT TYPE <b>Strategy Research Project</b>		3. DATES COVERED <b>00-00-2007 to 00-00-2008</b>	
4. TITLE AND SUBTITLE <b>Leaders Can Learn from Druyun's Ethical Lapses and Their Consequences</b>			5a. CONTRACT NUMBER		
			5b. GRANT NUMBER		
			5c. PROGRAM ELEMENT NUMBER		
6. AUTHOR(S) <b>Margaret Larezos</b>			5d. PROJECT NUMBER		
			5e. TASK NUMBER		
			5f. WORK UNIT NUMBER		
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) <b>U.S. Army War College ,122 Forbes Ave.,Carlisle,PA,17013-5220</b>			8. PERFORMING ORGANIZATION REPORT NUMBER		
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)			10. SPONSOR/MONITOR'S ACRONYM(S)		
			11. SPONSOR/MONITOR'S REPORT NUMBER(S)		
12. DISTRIBUTION/AVAILABILITY STATEMENT <b>Approved for public release; distribution unlimited</b>					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT <b>See attached</b>					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT <b>Same as Report (SAR)</b>	18. NUMBER OF PAGES <b>36</b>	19a. NAME OF RESPONSIBLE PERSON
a. REPORT <b>unclassified</b>	b. ABSTRACT <b>unclassified</b>	c. THIS PAGE <b>unclassified</b>			

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USAWC STRATEGY RESEARCH PROJECT

**LEADERS CAN LEARN FROM DRUYUN'S ETHICAL LAPSES AND THEIR  
CONSEQUENCES**

by

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## **ABSTRACT**

**AUTHOR:** Lieutenant Colonel Margaret C. Larezos

**TITLE:** Leaders Can Learn from Druyun's Ethical Lapses and Their Consequences

**FORMAT:** Strategy Research Project

**DATE:** 25 March 2008      **WORD COUNT:** 6,846      **PAGES:** 36

**KEY TERMS:** Acquisition, Procurement, Darleen, Legal Violations, Tanker, Small Diameter Bomb, Protests, McCain, Air Force

**CLASSIFICATION:** Unclassified

Darleen Druyun was the Air Force's second highest procurement official. In 2004, she was convicted of violating conflict-of-interest laws and jailed. The ramifications to the U.S. military were far reaching and continue to be felt today. The initial impact to the Air Force was an extensive reexamination of past contract actions, the need to re-compete several contracts, the rework of multiple protests, the delay of weapon system deliveries, and an increase in costs to taxpayers. The enduring consequences are the loss of trust and a work environment constantly responding to scrutiny. The most recent and devastating repercussion was the suicide of the official hired for her old position. Examining these results will help leaders understand how devastating a strategic leader's ethical lapses can be and provide some thoughts on how to prevent them in the future.



## LEADERS CAN LEARN FROM DRUYUN'S ETHICAL LAPSES AND THEIR CONSEQUENCES

We have seen the most egregious abuse of power from an acquisition official that I have ever seen. Darleen Druyun's actions not only disgraced herself and resulted in her conviction on public corruption charges but also disgraced the air force, the Department of Defense, and the entire defense establishment. I continue to believe that she is not singly responsible for this failure and fervently hope that both Congress and the department can work together to remove any possibility for future corruption through major acquisition reform.<sup>1</sup>

—John McCain  
U.S. Senator

It is not often one would associate the words scandal and intrigue with the bureaucratic world of military procurement. That is until 2003, when the Darleen Druyun case became public. Since then, the scandal is on every Air Force acquisition officer's mind in almost every official decision and action they take. Senior leaders can learn much by examining the conditions and her actions leading up to her conviction, and what they can do to prevent similar circumstances. They can also discover how lapses in ethical behavior can severely affect those involved in acquisition – government, contractors, and even individuals.

To facilitate learning and an appreciation of this far-reaching scandal, this paper provides a background of the events leading to Mrs. Druyun's conviction and the repercussions of her actions. Mrs. Druyun's infractions centered on illegally helping her family and bettering her own financial position. All went awry when she began showing favoritism to one contractor in return for favors to her family. The impact to the Air Force was an extensive reexamination of past contract actions, the need to re-compete several contracts and work through multiple protests, the delay of weapon system deliveries, and an increase in costs to taxpayers. The Air Force is not the only entity



affected. Boeing Corporation suffered financially and damaged their reputation. The whole DoD procurement process lost trust with Congress and remains under continued scrutiny. Finally, the most recent and heartbreaking consequence, a senior Air Force procurement executive committed suicide for believing he brought additional scandal back on the Air Force. After reviewing this information, senior leaders will be better informed and truly motivated to prevent such events in the future.

### Background of Darleen Druyun's Conviction

The chronological presentation below describes the history leading up to Darleen Druyun's ethical lapses and eventual conviction. Mrs. Druyun had a reputation of successfully pushing boundaries and taking risk. It suited her well during the Clinton administration when the defense industry was downsizing and the administration's goal was to "reinvent" government. She created multiple procurement reforms in the 1990s. In her dealings with contractors, she is credited with saving the Air Force \$20 billion.<sup>2</sup>

Her first brush with controversy was on the C-17 aircraft program. It happened prior to her assignment to the Air Force Headquarters Staff in Washington D.C. The incident occurred in the early 1990s and involved providing premature progress payments to help McDonnell Douglas through difficult financial times, failure to inform senior officials about the issue, and intimidating Defense Plant Representative Office personnel. In 1992, Congressman Conyers requested a Department of Defense (DoD) Inspector General (IG) investigation "of government actions concerning McDonnell Douglas Corporation's financial condition during 1990," with accusations that senior DoD officials "apparently devised and executed a plan involving hundreds of millions of dollars to benefit a single corporation without the knowledge or consent of the

Congress.”<sup>3</sup> Based on the results of the January 1993 DoD IG report, Secretary of Defense Aspin took action impacting the careers of four senior officials over the incident: Lt. Gen. Edward P. Barry Jr., Maj. Gen Michael J Butchko Jr., Brig. Gen. John M. Nauseef and Mr. A. Allen Hixenbaugh for their alleged improprieties.<sup>4</sup> Mrs. Druyun was a member of the cost performance review team under Gen Butchko's leadership. She provided contracting expertise as the Principle Assistant to the Deputy Chief of Staff, Contracting at Air Force Systems Command (now Air Force Material Command) located at Wright Patterson Air Force Base, Ohio. Although accused by name in the DoD IG report, Mrs. Druyun escaped any consequences of her involvement. One reporter believes it was due to the intervention by the Air Force Chief of Staff, Gen. McPeak. He petitioned the Secretary of Defense Aspin on Mrs. Druyun's behalf stating, “I thought she was a strong person, giving strong leadership in the acquisition community, so if I was going to save one person...” it should be Druyun.<sup>5</sup> Ironically, as a result of this experience, she may have learned better how to navigate through controversial actions.

Following her time in Ohio, Mrs. Druyun became the Deputy Assistant Secretary of the Air Force for Acquisition and Management in 1993. She occupied the Deputy, later the “Principle” Deputy, position for over 10 years. During this time period, she spent 47 months as the *acting* Assistant Secretary of the Air Force for Acquisition during periods when the position was not filled because an occupant had not yet been appointed or confirmed.<sup>6</sup> With nearly 40 percent of her time spent in charge of Air Force acquisition, accountable only to the busy Secretary of the Air Force, she was able to amass power, became extremely influential to the organization, and indispensable to her superiors.

Mrs. Druyun's downfall centers on family matters and employment prospects. She favored Boeing in contract negotiations in order to further family members and her own employment opportunities. The favoritism paid off; Mrs. Druyun contacted Mr. Michael M. Sears, an executive at Boeing, and asked for his assistance in hiring her daughter.<sup>7</sup> Boeing hired her in September 2000 into a position especially created for her. Boeing also hired Mrs. Druyun's daughter's fiancé, Michael McKee, in November 2000.<sup>8</sup> In mid 2002, Mrs. Druyun contacted Boeing on behalf of her daughter again, who feared termination for performance issues. Boeing transferred her daughter to a new position and continued to provide Mrs. Druyun with routine updates on her daughter's job status and pay increases. Unfortunately, the obvious conflict of interest did not come to the notice of officials who could have reacted, or later offenses and their impacts on Air Force programs may have been avoided.

Eventually, a senior official was appointed who began to challenge the authority Mrs. Druyun had accumulated over the past nine years. In 2001, Dr. Marvin Sambur became her boss, as the Assistant Secretary of the Air Force for Acquisition. He took away her ability to decide competitions, which had included determining company profit margins, and her authority to negotiate final contract terms or change requirements.<sup>9</sup> Having lost significant influence, Mrs. Druyun decided to retire.

In 2002, Mrs. Druyun began her own post retirement employment search. She recused herself from dealings with Lockheed Martin and made informal arrangements to work for them in an executive position. Meanwhile, her daughter, working in Boeing's human resources department, also began working job opportunities for her mother by initiating an encrypted e-mail to Mr. Michael Sears, Boeing's Chief Financial Officer,

explaining her mother's availability.<sup>10</sup> Essentially her daughter, Mrs. McKee was acting as an intermediary.<sup>11</sup> These communications occurred prior to Mrs. Druyun recusing herself from official dealings with Boeing.<sup>12</sup> Although she met with Boeing's Mr. Sears, in the Orlando Airport, on 17 October 2002 and they discussed employment conditions, she did not alert the Air Force that she was entering employment discussion until 5 November 2002. During this time she was actively negotiating with Boeing over the refueling tanker aircraft lease contract. Oddly, in October 2002, Mrs. Druyun and her husband sold their home in Virginia to Boeing attorney John Judy.<sup>13</sup> In the end she backed out of her Lockheed agreement and accepted a Boeing Vice President and General Manager position of their Missile Defense Systems business unit, with a \$250,000 yearly salary starting in November 2002. But, by November 2003 she was fired.<sup>14</sup>

Mrs. Druyun's transgressions were not uncovered because the Air Force suspected any wrongdoing, but because of the unusual nature of the tanker lease contract with Boeing. On 11 September 2003, the Senate Commerce Committee Chairman, Senator McCain, Republican from Arizona, sent a letter to the Secretary of Defense requesting any e-mail exchanges or other records between Boeing and top defense officials determining how the contract prices were set. Senate Armed Services Chairman John Warner, Republican from Virginia, also requested similar information. A full-scale Congressional inquiry followed.<sup>15</sup>

The legal proceedings that ensued were not straightforward. On 20 April 2004, Mrs. Druyun pleaded guilty to one count violating 18 United States Code (USC) Section 371 (title: Conspiracy to commit offense or to defraud the United States), " and

conspiring to violate 18 USC Section 208 (a), participating personally and substantially in a particular matter in which a company with which she was negotiating employment had a financial interest.”<sup>16</sup> She did so within a Plea Agreement benefiting both herself and the government. It required her to cooperate with the continuing investigation while facing no additional charges, submit to a polygraph upon government request, and made her daughter immune from prosecution.<sup>17</sup> She admitted to a conflict of interest in negotiating employment with Boeing while simultaneously in negotiations, on behalf of the Air Force, with Boeing over the tanker lease agreement. She stated her relationship with Boeing did not influence her official actions or harm the government.<sup>18</sup> However, this would not be the end of the story. As part of the continued cooperation to support further government investigation, Mrs. Druyun took a polygraph test, which she failed.<sup>19</sup>

In July 2003, Mrs. Druyun then supplemented her original plea with much more damaging information. She acknowledged providing false, misleading and untruthful data to the government investigators during two interview sessions.<sup>20</sup> All of Boeing’s favors of employing her son-in-law, daughter, keeping her daughter employed, and offering her a job had influenced her government decision pertaining to Boeing. “As a result of the loss of her objectivity, she took actions which harmed the United States.”<sup>21</sup>

In October 2003, Mrs. Druyun was sentenced. The original plea would have resulted in a six-month jail sentence, but the penalty was increased with her misleading the investigators. She received nine months in prison, followed by seven months of community confinement in South Carolina, a \$5,000 fine and 150 hours of community service.<sup>22</sup>

## Far Reaching Impacts of Mrs. Druyun's Actions

The news of Mrs. Druyun's sentencing was shocking. No one had heard of anyone going to jail over acquisition issues. But her sentencing was just the start; the impacts to the military, the defense industry, and public trust that followed are dramatic and they continue to this day. In the Supplemental Plea agreement, Mrs. Druyun discussed affecting four Boeing contracts: the Air Force tanker lease, the NATO airborne early warning and control system restructuring, the C-130 aircraft upgrade and the C-17 aircraft settlement -- all with a combined contract value of \$24.5 trillion.<sup>23</sup> Outside the plea agreement, the government discovered the Small Diameter Bomb program and several other contracts were also affected by her actions. Boeing paid a big price for its involvement in the scandal too, and DoD procurement organizations are under increased scrutiny. And finally, a civil servant took his life for believing he brought scandal back on the Air Force in the aftermath of Mrs. Druyun's actions. Below are descriptions of the affected programs, Mrs. Druyun's involvement, and the ramifications of her actions. This sets the foundation for discussion regarding the effect on contractors and DoD procurement, and the circumstances surrounding the suicide.

### Boeing KC 767A Tanker Lease

The most notable program associated with the Druyun scandal is the Tanker Lease. It piqued the interest of Congress and kicked off a series of investigations ultimately resulting in Mrs. Druyun's guilty plea. The program started with controversy, years prior to the Druyun admissions. Dr. Sambur, the Air Force Assistant Secretary for Acquisitions stated, "this was not a competitive bid process. The Air Force was ordered by Congress to work with Boeing on the new tanker program." Senator Ted Stevens,

Republican from Alaska, had inserted a line item into the 2001 appropriations bill which said the Air Force should explore leasing one hundred 767s from Boeing to be used as tankers. Senator McCain and others objected to the bill, but it still passed. The White House also encouraged the procurement because it promised to generate between 28,000 to 39,000 jobs.<sup>24</sup> Senator McCain did extract a commitment from the Secretary of the Air Force, James Roche, during a hearing to conduct a competitive bid. Airbus, owned by EADS Company, competed with Boeing for the contract, but in March 2001 the Air Force selected Boeing over Airbus because Airbus' aircraft was too large and they did not have the required refueling boom.<sup>25</sup> Officially, Airbus presented "a higher-risk technical approach and a less preferred financial arrangement."<sup>26</sup>

The acquisition strategy and negotiations, as guided by Mrs. Druyun, were criticized as well. The Air Force's sense of urgency for a swift procurement was the rapidly rising tanker sustainment costs during 2000-2003. So the Air Force compromised by having the first 100 aircraft leased only refuel Air Force fighters and bombers, not helicopters or other services' aircraft.<sup>27</sup> Interoperability would be addressed in future upgrades. Next, the DoD IG faulted the Air Force for using a fixed price contract for the risky refueling development portion of the contract, and a commercial item procurement strategy for an item that had no commercial application. However, the Air Force refuted the IG criticism for lack of commercial viability since both Japan and Italy were slated to commercially buy the aircraft.<sup>28</sup> The worst offense was Mrs. Druyun driving up prices, despite the Air Force straining to keep the price within the allotted budget. On 17 June 2002, Mrs. Druyun improperly influenced the tanker modification prices and failed to support her negotiator and pricer. The Program

Executive Officer, Brigadier General Bowlds was interviewed about a meeting where Ms. Druyun pulled the General, the System Program Director, and the Cost Price Analyst aside and told the team “you are trying to drive the price too low.” She required them to work with her designated representative to bring the price back up.<sup>29</sup>

Mrs. Druyun admitted to raising prices in her Supplemental Plea Agreement. In negotiations with Boeing, she “agreed to a higher price for the aircraft than she believed was appropriate.” She did it as a “parting gift to Boeing” and to ingratiate herself to her future employer. She also provided proprietary pricing data from Airbus to Boeing.<sup>30</sup>

Did her actions alone cause a negative long-term impact to the Air Force and military? Not necessarily. For the tanker lease program, she had plenty of help in making it go awry. Outside the acquisition actions under Mrs. Druyun’s control, an extensive DoD IG review states the acquisition was mismanaged throughout the DoD, Air Force, Congress and White House. Dr. Sambur contended “Druyun left the Air Force long before the critical period of negotiations that produced the tanker deal...the price of the aircraft continued to drop during negotiations in the year after her departure” meaning she did not secure a windfall for Boeing, if that was her intention.<sup>31</sup> Senator McCain continued to take objection to the overall cost, despite the Air Force lowering prices in negotiations. He was against the approach from the start and would have continued with his investigations regardless of Mrs. Druyun’s actions.

However, military operations did not escape unscathed. The Air Force’s risk of losing refueling capability has increased by delaying the tanker recapitalization. The aging KC-135 aircraft have an average age of 44 years.<sup>32</sup> Increased risk is not a trivial statement; old aircraft can experience unanticipated catastrophic failure like the F-15



fleet is facing.<sup>33</sup> The original lease would have delivered 60 tankers by 2006<sup>34</sup>; it's replacement, the KC-X procurement, will begin delivery to operations in 2013.<sup>35</sup> But, the studies done after Senator McCain began challenging the program indicated some delay was an acceptable risk.

By May 2004, a Defense Science Board study concluded the escalation in operating and support cost were not increasing as rapidly as initially estimated so the Air Force could afford take the time (until Fall 2004) to conduct an analysis of alternatives to determine the best approach to recapitalize the tankers.<sup>36</sup> It also concluded the Air Force had a robust corrosion control program in place making the corrosion problem manageable. In December 2005, the Analysis of Alternatives study concluded purchasing a "fleet of new medium to large commercial derivatives is the most cost effective alternative for KC-135 recapitalization." The speed at which the government should procure the new system was dependent on whether the current tankers are meeting warfighter requirements and the government should sacrifice cost for schedule if it cannot meet tanker demand.<sup>37</sup> The FY2005 Defense Authorization Act contained a provision that terminated the leasing authority granted in an earlier law.<sup>38</sup> The Air Force kicked off a whole new acquisition approach called KC-X with a request for proposal in December 2006.<sup>39</sup> With the increased operational requirements of the Global War on Terror, the procurement of a new tanker is now the Air Force's number one procurement priority.<sup>40</sup>

More visible than then operational impact was the political fall out. The controversial acquisition approach (and other scandals) led the Secretary of the Air Force Roche to withdraw his nomination for the Secretary of the Army. The Assistant

Secretary for Acquisition, Dr. Sambur resigned. Air Force Gen. Gregory “Speedy” Martin withdrew his nomination as Commander, U.S. Pacific Command because Senator McCain linked him to the tanker scandal (he was commander of the Air Force Material Command at the time). Congress held up approving general officer nominations for months. Overall, Senator McCain accused the Air Force of a lack of integrity, one of its three core values.<sup>41</sup> He also claims to have saved the taxpayer \$6 billion by halting this procurement.<sup>42</sup> With the tanker lease acquisition approach as such a great example of how not to buy a weapon system, we can only hope the KC-X procurement will result in a better-managed program and resulting capability.

#### NATO Airborne Early Warning and Control (AWAC) Mid-Term Modernization Program

Mrs. Druyun not only affected the U.S. military, she also impacted a contract affecting 13 NATO countries. In addition to her title of Principle Deputy to the Assistant Secretary; she was also the NATO AWAC Program Management Agency’s Chairman of the Board of Directors and General Manager. In these positions, she took a bigger than usual role in negotiations, one usually assumed by a subordinate contracting officer. The purpose of the modernization program and contract restructure was to expand performance and increase flexibility to the existing NATO fleet of 18 E-3 aircraft.<sup>43</sup> Mrs. Druyun and her staff settled on a final price on 16 October 2002 (a day before her airport meeting with Boeing’s Mr. Sears) increasing Boeing’s contract amount by \$278 million with another \$522 million in options.<sup>44</sup> In her Supplemental Plea Agreement, she admitted to negotiating a payment of \$100 million with Boeing and, “at the time she believed a lower amount to be an appropriate settlement and she did not act in the best

interest of the United States and NATO.”<sup>45</sup> She says her employment negotiations and her daughter and son-in-law’s relationship with Boeing influenced her.<sup>46</sup>

How was Mrs. Druyun able to allow higher negotiated prices? The April 2004 DoD IG report stated Mrs. Druyun and other managers did not use appropriate contracting procedures when they negotiated this contract.<sup>47</sup> At the time neither Dr. Sambur, Mrs. Druyun’s boss, nor her subordinates challenged her approach to negotiations.

The long-term impact due to Mrs. Druyun’s involvement was the Air Force had to renegotiate the contract. Boeing went to NATO unilaterally, requesting renegotiation, to remove any doubt about receiving a fair deal. Boeing’s awarded amount decreased by \$27 million.<sup>48</sup> However, portions of the contract would have been renegotiated regardless; they fell under an undefinitized contract action, which requires further negotiation prior to full payment. Fortunately the impacts were isolated to contract activity and did not delay operational delivery.

#### C-130 Avionics Modernization Program

The third program cited in Mrs. Druyun’s Supplemental Plea is the \$4 billion C-130 Aircraft Avionics Modernization Program (AMP).<sup>49</sup> The program, in negotiation from June 2000 to June 2001, was to replace outdated analog technology with modern cockpits, make the C-130 compliant with current air traffic management requirements, conduct an extensive rewiring, and upgrade obsolete parts.<sup>50</sup> As the source selection authority<sup>51</sup> for this procurement, Mrs. Druyun admitted to selecting Boeing from among the four competitors out of “perceived indebtedness to Boeing” for employing her family. She stated, “an objective selection authority may not have selected Boeing.”<sup>52</sup>

How was Mrs. Druyun able to show favoritism unnoticed? First, she was highly regarded by senior military leaders for her aggressive approach to acquisition. Second, her supervisor, Mr. Arthur Money left office by April 2001, prior to the completion of negotiations in June 2001. She was the Acting Assistant Secretary for months. It is doubtful her interim boss, the Secretary of the Air Force, was inclined to review the details of her decisions, especially with Mrs. Druyun's "Dragon Lady" reputation for scrutinizing contractors and holding them to high standards.

The impact to the Air Force and the C-130 AMP was more severe to the contracting world than the resulting renegotiations on the NATO AWACs Modernization. Mrs. Druyun's admissions gave Lockheed-Martin, L-3 Communications and BAE Systems cause to protest the contract award to Boeing. The Air Force turned the matter over to the Government Accountability Office (GAO) who ruled in favor of the contractors.<sup>53</sup> The GAO concluded the Air Force could not show Mrs. Druyun was unbiased during source selection; they cite multiple examples of her influence where she directed ratings of the competing contractors be revised, many in favor of Boeing. Because the protest was not filed until 3 years after the contract was awarded, when the protesters learned of Mrs. Druyun's plea, and with \$500 million of the \$1 billion contract value already on contract, the GAO had to balance operational impact of delaying the program and conducting a fair procurement. The result was the direction to the Air Force to re-compete the production and installation portion and pay for the three protestors' proposal preparation and protests costs. The impact to operations of funding the proposals, protest, and additional contracting activities is that some other

programs must take a funding cut. Competing the production contract may also delay operational delivery.

### C-17 Modification Payment

The least publicized of Mrs. Druyun's admissions concerns awarding millions to Boeing for a C-17 contract modification and it potentially remains unresolved. This first example of favoritism occurred in 2000, during the time frame Mrs. Druyun was seeking employment for her daughter's fiancé. In her second plea, Mrs. Druyun stated her agreement to a "payment of approximately 412 million dollars to Boeing in connection with the C-17 H22 clause" was influenced by Boeing's assistance.<sup>54</sup> Interestingly, the long-term impact is still uncertain. In June 2006, although Boeing settled with the Federal Government over multiple contract and ethical issues, the Air Force was still reviewing C-17 contract actions occurring back to 2000, including this one. The Air Force indicated if they determined the payment was excessive Boeing could be required to renegotiate or even return a portion of the payment. Although an independent review in 2005 determined the price was fair and reasonable, the Air Force maintained the right to readdress the issue if new pertinent information were uncovered. Boeing also agreed to this position.<sup>55</sup> As of February 2008, no one has announced finding new revelations concerning this payment.

### Small Diameter Bomb Program

The programs Mrs. Druyun admitted to influencing in the Supplemental Plea were not all inclusive of the those impacted by the scandal. The Small Diameter Bomb (SDB) program was also affected by Mrs. Druyun's penchant for controlling source selection outcomes in favor of Boeing. The Air Force had to address the results of a Lockheed

Martin protest and compete a portion of the contract they had planned to award sole source to Boeing, delaying the delivery of a moving target capability to the field.

The program began with best of intentions filling a highly sought after warfighter need. The SDB system is sorely needed in current warfare, by all the services, due to its low-cost and low collateral-damage precision strike capabilities; it is smaller than the current 500-pound bombs by about 50 percent.<sup>56</sup> In October 2001, the Air Force awarded Boeing a two-year, \$47 million contract.<sup>57</sup> Three years later Lockheed Martin filed a protest over this award based on material released during the Druyun investigation. In February 2005, the GAO sustained their protest because the Air Force could not show Mrs. Druyun's bias did not affect the contract award decision. To the contrary, the GAO found she "was significantly involved in the decision making process that culminated in changes to technical requirements and the deletion of related evaluation criteria."<sup>58</sup> Due to budget shortfalls and pressure to accelerate the acquisition, she approved deferring the requirement to address hitting moving targets to a later procurement. This put Lockheed Martin at a competitive disadvantage since their proposal, which excelled at this requirement, was no longer relevant. These changes occurred during the source selection and were not clearly communicated to the contractors facilitating the later protest.<sup>59</sup> After source selection the requirement was put back into the Boeing contract with intentions to activate it using a sole source procurement.

Although the impacts are difficult to quantify, the magnitude of waste can be surmised in general terms. If the Air Force and Mrs. Druyun had demanded to keep the moving target requirement in the original contract (possibly as an option), the

government may not have competed the second increment.<sup>60</sup> Conducting multiple competitions and dealing with protest results cost the Air Force plenty in lost personnel work hours and schedule -- not just for this miniature munition but other acquisition efforts as well. However, although Mrs. Druyun was involved in this case her lack of integrity was not the only contributor to rework and delay. Instead, senior leaders faced with competing demands for speed and re-prioritization of requirements stretched out the acquisition program and caused the acquirers to attempt to provide capability in the shortest time possible, even though it ended up reducing competition.

#### DOD IG Inspection of Eight Contracts

The repercussions of Mrs. Druyun's actions continued into 2005 and 2006. The acting Under Secretary of Defense for Acquisition, Technology and Logistics, Michael W. Wynne, had the Defense Contract Management Agency (DCMA) review all contracts Mrs. Druyun was involved in since 1993. The total was 407 contracts covering 8,000 pages of information. DCMA found eight contracts suspect; in February 2005, the under secretary asked the DoD IG to review them.<sup>61</sup> Total value of all the programs is approximately \$3B.<sup>62</sup>

The DoD IG published their results for all eight programs in 2006. Two are "for official use only" therefore are not addressed here. The other six reports all found either the Source Selection Authority, Mrs. Druyun, made decisions that favored the winner or cost the government additional funds ranging from \$4.7 million to \$19.7 million, or the Air Force did not follow the Federal Acquisition Regulation.<sup>63</sup>

## Contractor Impact

The U.S. government is not the only entity dealing with the aftermath of Mrs. Druyun's decisions. Two of Boeing's senior executives were affected by the Druyun scandal and one was incarcerated. In late 2003, Boeing's board asked CEO Philip M. Condit to resign over the growing Pentagon scandal and fired Boeing's Chief Financial Officer Michael M. Sears.<sup>64</sup> Mr. Sears was the person with which Mrs. Druyun discussed her future employment and her daughter contacted via e-mail. In November 2004, he pled guilty to conflict-of-interest in his role in hiring Mrs. Druyun.<sup>65</sup> He was sentenced to four months in prison, a \$250,000 fine, and two years probation.<sup>66</sup>

Boeing continued to deal with the issue for the next three years culminating in a record payment to the Federal Government. In June 2006, the government and Boeing agreed on a record \$615 million settlement, \$50 million as a criminal penalty and \$565 million to resolve civil claims relating to Boeing's improperly obtaining documents from Lockheed Martin for a rocket launch services program and the hiring of Mrs. Druyun.<sup>67</sup>

Other contractors watched and learned from Boeing's missteps. Many companies are reviewing their hiring practices of former government employees.<sup>68</sup> More disturbing is a new climate of successful protests, doubling or tripling the time it takes to start a contract.<sup>69</sup> Although the numbers of protests varies year to year, the sustained rate of protests has steadily increased from 16 percent in 2002 to 29 percent in 2006.<sup>70</sup> With the successes of all protests concerning the Druyun case, corporations are integrating protests into their business strategy.<sup>71</sup> Others contribute the rise to lack of government procurement expertise due to a large wave of government employee retirements leaving inexperienced acquisition personnel. Another cause is the government approach of combining numerous smaller contracts into a few large contracts leaving a winner take



all scenario. If a company is not part of the large contract they could be out of the government business for years.<sup>72</sup> In summary, the Druyun scandal precipitated a record settlement with Boeing, resulted in executive firings and a jailing, and facilitated a change to corporate business strategy. Senior government officials can have profound effects, but Mrs. Druyun's does not end here. The events of 2003 are still felt in the continued political scrutiny of the DoD procurement, even into the 2008 presidential elections.

#### Increased Scrutiny of DoD Procurement

The fallout from the scandal has increased media scrutiny of DoD procurement activities, resulted in several acquisition reform studies, and has even been brought up on Senator McCain's presidential campaign speeches. Newspapers did not used to focus on the Pentagon's acquisition system except for major contract announcements.<sup>73</sup> According to the GAO, now the media tracks a multitude of procurement issues, especially the protests.<sup>74</sup> The acquisition community is under a media microscope and is studied extensively. While the media is scrutinizing acquisition proceedings, the government is conducting self-analysis as well. The Defense Science Board published an extensive review the Druyun case in March 2005. Their overall conclusion was "too much control and management of too many functions with insufficient oversight resided in one person."<sup>75</sup> They did not see a likelihood of a recurrence due to recent reforms and the structure of other acquisition offices precluding such incidents. But, the complexity of the acquisition process means that whoever masters it can amass great power and authority. They also observed "an excessive amount of resources are devoted to thwarting or uncovering relatively rare cases of fraud and abuse. The result

is growing delays in acquiring important, even critical, capabilities for the warfighter.”<sup>76</sup>

As a result, they recommended the DoD conduct a top-down assessment to streamline and simplify the system and preclude exclusive expertise and its resulting power from residing in a small portion in the acquisition work force.

Following the Defense Science Board recommendation, the Acting Deputy Secretary of Defense kicked off the comprehensive Defense Acquisition Performance Assessment (DAPA). The final report came out in January 2006.<sup>77</sup> Congress is not leaving implementation to chance. Starting in 2007, they required the DoD to report on acquisition transformation progress twice a year.<sup>78</sup> In February and July 2007, the Secretary of Defense reported to Congress how they are implementing many of DAPA’s as well as three other major studies’ recommendations.<sup>79</sup>

Meanwhile, at least one presidential candidate will continue to apply pressure. Senator McCain responding to allegation of being hard on the Air Force with “I’ll be hard on any defense corporation, I’ll be hard on any defense official, that wastes the taxpayers’ money.”<sup>80</sup> He will have his work cut out for him since the Ethics Resource Center of Washington found that ethical breaches are on the rise in the government.<sup>81</sup> But, the Air Force leadership is trying deperately to overcome these perceptions.

## A Human Toll

One author titled the whole affair the “Sad Saga” of Darleen Druyun. All the churn and turmoil it has caused the U.S. government is distressing. It has generated 48 separate investigations conducted by eight agencies.<sup>82</sup> It has increased cost and delayed the delivery of weapon systems. It even contributed to the suicide of one admired senior service executive, Mr. Charles Reichers.

In late 2006, the Assistant Secretary of the Air Force for Acquisition, Ms. Sue Payton, determined she needed more senior level leadership to deal with the Air Force's large acquisition workload. She decided to fill Mrs. Druyun's old position so she could have a second deputy, along with her military Lieutenant General deputy.<sup>83</sup> Mr. Reichers had worked for her before in her position at OSD.<sup>84</sup> He had an excellent ethical reputation and extensive expertise in information technology systems. She also needed him to facilitate transparency and help recover the organization's reputation. To preclude the Druyun scenario of a deputy amassing power over time, the position was converted to a political appointment, not a career civil servant. Just like most political appointees, he would be expected to leave after a change in administration.

Mr. Reichers was very forthright with his thoughts, and was not one to talk around his intentions. He also cared deeply about people.<sup>85</sup> Therefore, during an interview about his interim employment between his job at OSD and his civil servant position, when he worked for Commonwealth Research Institute (CRI), he stated he "didn't do anything specifically for CRI." Instead, he was preparing for his appointed position by taking briefings from his future staff. All agree there was nothing illegal about his time at CRI. The appropriateness was more in question. It also led to a protest from a company claiming Mr. Reichers showed favoritism in a contract award due to his former employment by CRI. In his suicide note Mr. Reichers said, "I first and foremost express my deepest regret for a situation based on my naivete...I've created a scandal."<sup>86</sup>

Mr. Reichers death is the latest repercussion of a scandal that began with favoritism to family members in 2001. Seven years later, the DoD acquisition

community continues to suffer from a senior leader's ethical lapses. A summary table of the Mrs. Druyun's actions and their impacts are shown below.

### SUMMARY OF MRS. DRUYUN'S ACTIONS AND THEIR IMPACTS

HOW PROGRAM OR ENTITY AFFECTED	IMPACTS
Boeing KC 767A Tanker Lease: Mrs. Druyun agreed to a higher price for the aircraft than she believed was appropriate. During negotiations, provided Boeing proprietary pricing data supplied by another aircraft manufacturer.	<ul style="list-style-type: none"> <li>- <i>Note: Not all impacts due to solely to Druyun's action but they did help start the firestorm of studies and investigations</i></li> <li>- Capability delayed by 7-9 years</li> <li>- Increased risk of Air Force not being able to perform refueling mission to support the Global War on Terror</li> <li>- Three senior leaders resigned or retired</li> <li>- General officer nominations held up in Congress</li> <li>- Senator McCain accused Air Force of lacking integrity; used involvement in case to claim saving taxpayers \$6 billion.</li> </ul>
NATO AWAC Mid-Term Modernization Program: negotiated a payment of \$100 million to Boeing as part of the restructuring. She believed a lower amount to be an appropriate settlement and she did not act in the best interest of the United States and NATO.	<ul style="list-style-type: none"> <li>- Renegotiation of the contract. Boeing's awarded amount decreased by \$27 million.</li> </ul>
C-130 Avionics Modernization Program: defendant selected Boeing from four competitors. An objective selection authority may not have selected Boeing.	<ul style="list-style-type: none"> <li>- Three contractors protested and GAO ruled in their favor</li> <li>- Air Force must compete the production and installation portion</li> <li>- Air Force must pay the three protestors' proposal and protest costs</li> <li>- Possible delay in delivery due to additional contracting activities</li> <li>- Budget cuts to other programs to fund above expenses</li> </ul>
C-17 Modification Payment: agreed to a payment of \$412 million to Boeing in connection with the C-17 H22 clause.	<ul style="list-style-type: none"> <li>- Government conducted an independent review</li> <li>- Price was determined as fair and reasonable</li> <li>- Could re-open case if new information found</li> </ul>
Small Diameter Bomb Program: allowed changes to evaluation criteria and changed them back after contract award	<ul style="list-style-type: none"> <li>- Lockheed Martin protested and GAO ruled in their favor</li> <li>- Must compete next version that hits moving target</li> </ul>
Various actions on other contracts	<ul style="list-style-type: none"> <li>- DCMA conducted massive contract review of 407 contracts; found 8 suspect</li> <li>- Contracts with issues may have cost the government additional funding ranging from \$4.7</li> </ul>

	million to \$19.7 million.
Boeing: Mrs. Druyun showed them favoritism and negotiated employment with them while in contract negotiations.	<ul style="list-style-type: none"> <li>- Contributed to \$615 million payment to the Government (of which \$50 million was a penalty payment)</li> <li>- CEO fired, CFO jailed, reputation ruined</li> <li>- Lost refueling tanker lease program</li> </ul>
DoD Procurement Scrutiny	<ul style="list-style-type: none"> <li>- Increased rate of successful contractor protests adding months of delay to contract start dates</li> <li>- Change to contractor hiring practices of former government employees.</li> <li>- Increased media attention</li> <li>- Precipitated multiple acquisition reform studies</li> <li>- Congress passes Warner Act requiring DoD to report on acquisition reform twice a year</li> </ul>
Deputy Assistant Secretary of the Air Force for Acquisition	<ul style="list-style-type: none"> <li>- Took his own life because he brought scandal to the Air Force</li> </ul>

Table 1.

### Conclusions

The Air Force is still recovering from Mrs. Druyun's actions in 2000-2003. The service's integrity was called into question and reputation stained for years to come. So what can senior leaders learn from this experience to avoid a similar fate in the future? Besides the obvious actions of being aware of the ethical rules, avoiding nepotism, and not seeking a job with a contractor during negotiations, a leader can address work climate and expectations that could lead to outcomes akin to the Druyun scandal.

For one, leaders should watch for personnel amassing too much power. As the Defense Science Board concluded, Mrs. Druyun had too much control with insufficient oversight. Mrs. Druyun's reputation as the "Dragonlady" was well known in the acquisition community. Leaders need to be aware of such personalities and circumstances in their organizations. They should move these powerful civil servants into new organizations and experiences to take advantage of their talents, but not allow their extensive experience to dominate an organization.

Leaders should also research their employees and gain a wider perspective on their performance. You can learn a lot about folks by merely typing their name into Google. Mrs. Druyun is named in the DoD IG report on the C-17 progress payments, available on the internet. Oddly, she is the only one named in the report whose career did not suffer. Although leaders considered her aggressive nature an asset, in hindsight she required more oversight to keep her actions within legal boundaries. Being alert to past scandals could help the employer to watch for certain behaviors and actions. Another way to gain a better perspective is to institute 360-degree appraisals. This gives subordinates an opportunity to comment on their superior's ethical standards and provides the boss with one more data point on their subordinate's performance. Lessons in leading personnel are not the only area senior leaders should heed, they should also be aware of a risk taking climate they may create.

Even during wartime, be cautious with aggressive acquisition approaches and strive for political consensus. This is especially true on large acquisitions. Not all the programs affected by the Druyun scandal were damaged exclusively by Mrs. Druyun's actions, other forces and decisions helped put the Air Force into the eventual state of losing a protest or re-competing the contract. The tanker lease scenario is an excellent example of multiple parties influencing a program. Congress required the approach in a 2001 law, and the Air Force leaders believed it was the most expeditious, albeit novel, approach to achieving wartime needs. Senator McCain and the losing contractors did not agree. When dealing with such a contentious acquisition, acquirers must follow extraordinary measures to ensure no chance of impropriety in contracting activities. Now, such risk adverse acquisition approaches are what is needed to build up the Air

Forces reputation again.<sup>87</sup> Additionally, senior leaders should work to achieve political consensus to aid in precluding programmatic delays. Although difficult to achieve, it pays off in the end by speeding up the delivery of weapon systems.

DoD officials' acts of impropriety can reach far and wide. From the Boeing payment of \$614 million, to more successful protests and companies incorporating protests into their business strategies, to fodder for presidential campaigns, the unintended consequences are extensive. The DoD acquisition community continues to react to the scandal as well. After completion of all the contract reviews, renegotiations, and protest responses, the DoD is still hard at work implementing the multiple reform initiatives resulting from post-Druyun acquisition improvement studies. Finally, a person took his own life reeling from the shame of a minor incident, which he perceived to have brought additional scandal to the Air Force.<sup>88</sup>

Through reviewing the background, the programmatic impacts, and the long-term repercussions of Mrs. Druyun's transgressions, senior leaders should now be better informed and highly motivated to prevent such abuses in the future. In this time of war and global change, our nation needs leadership that can navigate the foibles of the human condition and deliver the most ethical acquisition approach achievable.

## Endnotes

<sup>1</sup> U.S. Senator John McCain, Statement at the Airland Subcommittee Hearing on Air Force Acquisition Oversight, 14 April 2005; available from [http://mccain.senate.gov/public/index.cfm?FuseAction=PressOffice.PressReleases&ContentRecord\\_id=90A0BA10-9FCD-4AB8-85B9-5B2CCB7204E1](http://mccain.senate.gov/public/index.cfm?FuseAction=PressOffice.PressReleases&ContentRecord_id=90A0BA10-9FCD-4AB8-85B9-5B2CCB7204E1); Internet; accessed 24 March 2008.

<sup>2</sup> George Cahlink, "Fallen Star," *Government Executive*, 15 February 2004; available from <http://www.govexec.com/features/0204/0204s1.htm>; Internet; accessed 11 December 2007.

<sup>3</sup> Michael L. Heil, *Ethics in an Acquisition Environment: C-17 Case Study*, Executive Research Project (Washington D.C., Industrial College of the Armed Forces, 23 June 1994), 10, 15.

<sup>4</sup> John T. Connelly, "Editorial: Blood on the Rock," *Air Force Magazine On-Line*, July 1993; available from <http://www.afa.org/magazine/1993/07edit93.asp>; Internet; accessed 14 January 08.

<sup>5</sup> Renae Merle, "Pentagon's Druyun Thrust Herself into Role of Power," *The Washington Post*, 21 November 2004; available from [http://seattletimes.nwsources.com/html/business/technology/2002096153\\_druyun21.html](http://seattletimes.nwsources.com/html/business/technology/2002096153_druyun21.html); Internet; accessed 14 December 2007.

<sup>6</sup> Defense Science Board Task Force, *Report on Management Oversight in Acquisition Organizations* (Washington, D.C.: U.S. Department of Defense, 2005), 6-7.

<sup>7</sup> U.S. District Court for the Eastern District of Virginia, *USA v. Michael M. Sears*, Criminal No. 04-310-A, *Statement of Facts*, November 2004.

<sup>8</sup> Merle.

<sup>9</sup> Merle.

<sup>10</sup> U.S. District Court for the Eastern District of Virginia, *USA v. Michael M. Sears*, Criminal No. 04-310-A, *Statement of Facts*, November 2004.

<sup>11</sup> Merle.

<sup>12</sup> Defense Science Board Task Force, 6-7.

<sup>13</sup> Air Force Materiel Command Mission Brief, "The Godmother, Starring Darlene Druyun," briefing slides, May 2006; available from Warner Robins Area Chamber of Commerce Subcommittee, Aerospace Industry Committee web site [www.wrcoc-aic.org/PowerPoints/May06.ppt](http://www.wrcoc-aic.org/PowerPoints/May06.ppt); Internet; accessed 1 January 2008.

<sup>14</sup> David Bowermaster, "Scandal Rocks Boeing: CFO Fired," *The Seattle Times*, 25 November 2003 [newspaper on-line]; available from <http://www.globalsecurity.org/org/news/2003/031125-boeing-scandal.htm>; Internet; accessed 24 March 2008.

<sup>15</sup> Amy Svitak, "McCain Presses for Inquiry on Boeing Tanker Lease Deal," *CongressDailyPM*, 11 November 2003; available from <http://govexec.com/dailyfed/1103/111103cdpm2.htm>; Internet; accessed 1 January 2008.

<sup>16</sup> U.S. Office of Government Ethics General Counsel Marilyn L. Glynn, "2004 Conflict of Interest Prosecution Survey," memorandum for Designated Agency Ethics Officials and Inspectors General, Washington D.C., 7 September 2005; available from [http://www.usoge.gov/pages/daeograms/dgr\\_files/2005/do05014.txt](http://www.usoge.gov/pages/daeograms/dgr_files/2005/do05014.txt); Internet; accessed 1 January 2008.

<sup>17</sup> U.S. District Court for the Eastern District of Virginia, *USA v. Darleen A. Druyun*, Criminal No. 04-150-A, *Plea Agreement*, April 2004.



<sup>18</sup> U.S. District Court for the Eastern District of Virginia, *USA v. Darleen A. Druyun*, Criminal No. 04-150-A, *Supplemental Statement of Facts*, July 2004, 2.

<sup>19</sup> United States Government Accountability Office, *Decision: Matter of Lockheed Martin Aeronautics Company; L-3 Communications Integrated Systems L.P.; BAE Systems Integrated Defense Solutions, Inc.*, 24 February 2005, 14-15; available from <http://www.gao.gov/decisions/bidpro/295401.pdf>; Internet; accessed 25 January 2008.

Mrs. Druyun's agreed to provide full, complete and truthful cooperation to the government and submit to a polygraph in her initial plea agreement in April 20, 2004. She provided interviews to the government on December 2, 2003 and April 23, 2004. In July 2004, she submitted to a polygraph test, which she failed. After this she acknowledged she provided false, misleading and untruthful information to the government in the interviews. This led to her supplemental plea agreement, also in July 2004, where she admitted showing favoritism to Boeing on four programs in return for Boeings helping family members.

<sup>20</sup> U.S. District Court for the Eastern District of Virginia, *USA v. Darleen A. Druyun*, Criminal No. 04-150-A, *Supplemental Statement of Facts*, July 2004, 1.

<sup>21</sup> *Ibid.*

<sup>22</sup> Leslie Wayne, "Ex-Pentagon Official Gets 9 Months for Conspiring to favor Boeing," *New York Times*, 2 October 2004, section Business; available from [http://www.nytimes.com/2004/10/02/business/02boeing.html?\\_r=1&oref=slogin](http://www.nytimes.com/2004/10/02/business/02boeing.html?_r=1&oref=slogin); Internet; accessed 1 January 2008.

<sup>23</sup> Air Force Materiel Command Mission Brief.

<sup>24</sup> Joseph L. Galloway, "Air Force Allowed Boeing to Rewrite Terms of Tanker Contract, Documents Show," *Knight-Ridder*, 28 March 2004, available from <http://www.commondreams.org/headlines04/0328-09.htm>; Internet; accessed 17 January 2008.

The White House involvement: President Bush assigned White House Chief of Staff Andrew Card as point man. A variety of independent government offices deemed the procurement unnecessary and too expensive but Mr. Card intervened and ordered the Air Force to move ahead with the deal. His primary interest was in the number of jobs the program would generate with estimates ranging from 28,000 to 39,000.

<sup>25</sup> Galloway.

<sup>26</sup> Dan Cook, "Boeing Given Nod on Tanker Lease," *Military Aerospace Technology*, Online Edition, (1 May 2002), available from <http://www.military-aerospace-technology.com/article.cfm?DocID=335>; Internet; accessed 17 January 2008.

<sup>27</sup> U.S. Department of Defense, Inspector General, Statement of the Honorable Joseph E. Schmitz Inspector General Department of Defense before the Airland Subcommittee Senate Committee on Armed Services on "Air Force Acquisition Oversight," (Washington, D.C., 14 April 2005), available from <http://armed-services.senate.gov/statemnt/2005/April/Schmitz%2004-14-05.pdf>; Internet; accessed 17 January 2008.

<sup>28</sup> Boeing, "767 Family, 767 Program Milestones," available from [http://www.boeing.com/commercial/767family/pf/pf\\_milestones.html](http://www.boeing.com/commercial/767family/pf/pf_milestones.html); Internet; accessed 18 February 2008.

<sup>29</sup> Office of the Inspector General of the Department of Defense, *Management Accountability Review of the Boeing KC-767A Tanker Program* (Washington D.C., 13 May 2005), 169, available from [http://www.globalsecurity.org/military/library/report/2005/redacted\\_oig2004171\\_shaded.pdf](http://www.globalsecurity.org/military/library/report/2005/redacted_oig2004171_shaded.pdf); Internet; accessed 18 January 2006.

<sup>30</sup> U.S. District Court for the Eastern District of Virginia, *USA v. Darleen A. Druyun*, Criminal No. 04-150-A, *Supplemental Statement of Facts*, July 2004, 2-3.

<sup>31</sup> John A. Tirpak, "Tanker Twilight Zone," *Air Force Magazine Online*, February 2004, available from <http://www.afa.org/magazine/feb2004/0204tanker.asp>; Internet; accessed 17 January 2008.

<sup>32</sup> Lt Gen Hoffman, Lt Gen Chandler, and Maj Gen Kane, *Air Force Airlift and Tanker Programs*, Presented to the House Armed Services Committee – Air and Land Forces Subcommittee on March 7, 2007 (Washington, D.C.: U.S. Department of the Air Force, 2007), 3.

<sup>33</sup> Robert S. Dudney, "Catastrophic Failure, Washington's Apathy Toward USAF's Geriatric Fleet Comes Close to Outright Negligence," *Air Force Magazine Online*, January 2008, available from <http://www.afa.org/magazine/jan2008/0108edit.asp>; Internet; accessed 16 March 2008.

<sup>34</sup> Boeing, "U.S. Air Force – Boeing 767 Tanker Lease Explained," 14 July 2003; available from [http://www.boeing.com/news/releases/2003/q3/nr\\_030714a.html](http://www.boeing.com/news/releases/2003/q3/nr_030714a.html); Internet; accessed 20 March 2008.

<sup>35</sup> Kent Miller, Gayle S. Putrich, and Pierre Tran, "U.S. Air Force Tanker Decision Made," *Defense News*, 29 February 2008, [newspaper on-line]; available from <http://www.defensenews.com/story.php?i=3399533&c=AME&s=BUD>; Internet; accessed 20 March 2008.

<sup>36</sup> U.S. Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, *Defense Science Board Task Force Report on Aerial Refueling Requirements* (Washington, D.C.: U.S. Department of Defense, May 2004), 35.

<sup>37</sup> RAND Corporation, *Analysis of Alternatives (AOA) for KC-135 Recapitalization* (Santa Monica CA: RAND Corporation, 2006), 16.

<sup>38</sup> Christopher Bolkcom, *Air Force Aerial Refueling: CRS Report for Congress*, 29 August 2006; available from <http://digital.library.unt.edu/govdocs/crs/permalink/meta-crs-9865:1>; Internet; accessed 25 March 2008.

<sup>39</sup> Airforce Technology, "KC-767 Tanker Transport Aircraft, USA," *Airforce Technology* available from <http://www.airforce-technology.com/projects/kc767/>; Internet; accessed 17 January 2008.

<sup>40</sup> Michael W. Wynne and T. Michael Moseley, *2007 U.S. Air Force Posture Statement* (Washington, D.C.: U.S. Department of the Air Force), Recapitalizing and Modernizing the

Force, Global Reach section, available from <http://www.posturestatement.hq.af.mil/index.htm>; Internet; accessed 16 March 2008.

<sup>41</sup> Elain M. Grossman, "McCain, USAF Chief Vow to Patch Strained Relations After Scandal," *Inside the Pentagon*, 17 March 2005, available from <http://integrator.hanscom.af.mil/2005/March/03172005/03172005-16.htm>; Internet; accessed on 18 February 2008.

<sup>42</sup> Dan Simpson, "A Tangled Tanker Deal, The Air Force Picks Europe's Airbus Over Boeing, But the Outsourcing Charge Won't Stick," *Pittsburgh Post-Gazette*, 12 March 2008 [newspaper on-line]; available from <http://www.post-gazette.com/pg/08072/864254-374.stm>; Internet; accessed 20 March 2008.

<sup>43</sup> U.S. Department of Defense, Inspector General, *Report on The NATO AWACS Mid-Term Modernization Program "Global Solution,"* Report No. D-2004-069 (Washington D.C., 14 April 2004), i, available from <http://www.dodig.osd.mil/audit/reports/fy04/04-069.pdf>; Internet; accessed on 18 January 2008.

<sup>44</sup> C4I News, "Boeing Awarded \$278 Million NATO AWACS Upgrade Contract," *C4I News*. Potomac: 9 January 2003.

<sup>45</sup> U.S. District Court for the Eastern District of Virginia, *USA v. Darleen A. Druyun*, Criminal No. 04-150-A, *Supplemental Statement of Facts*, July 2004, 3.

<sup>46</sup> *Ibid.*

<sup>47</sup> U.S. Department of Defense, Inspector General, Statement of the Honorable Joseph E. Schmitz Inspector General Department of Defense before the Airland Subcommittee Senate Committee on Armed Services on "Air Force Acquisition Oversight," (Washington, D.C., 14 April 2005), 12, available from <http://armed-services.senate.gov/statemnt/2005/April/Schmitz%2004-14-05.pdf>; Internet; accessed 17 January 2008.

They did not generate an independent government cost estimate including a technical evaluation of labor hours and labor mixes, audit assistance to review labor rates, or weighted guidelines to establish reasonable profit and share ratios.

<sup>48</sup> Caroline Daniel, "Companies International: Boeing Signs \$524m Nato Awacs Deal," *Financial Times*, 3 May 2004, available from <http://search.ft.com/ftArticle?queryText=NATO+AWACS&y=9&aje=true&x=17&id=040503000810&ct=0>; Internet; accessed 23 January 2008.

<sup>49</sup> The C-130 AMP program does not address C-130Js because they are a recent acquisition not requiring modernization.

<sup>50</sup> Ed McKenna, "A Herculean Upgrade," *Avionics Magazine*, 1 September 2007; available from <http://www.aviationtoday.com/av/categories/military/15357.html>; Internet; accessed 25 January 2008.

<sup>51</sup> Source Selection Authority is the government official who selects which bidder wins a source selection or contract competition.

<sup>52</sup> U.S. District Court for the Eastern District of Virginia, *USA v. Darleen A. Druyun*, Criminal No. 04-150-A, *Supplemental Statement of Facts*, July 2004, 3.

<sup>53</sup> U.S. Government Accountability Office, Decision: Matter of Lockheed Martin Aeronautics Company; L-3 Communications Integrated Systems L.P.; BAE Systems Integrated Defense Solutions, Inc., 24 February 2005, 14-15; available from <http://www.gao.gov/decisions/bidpro/295401.pdf>; Internet; accessed 25 January 2008.

<sup>54</sup> U.S. District Court for the Eastern District of Virginia, *USA v. Darleen A. Druyun*, Criminal No. 04-150-A, *Supplemental Statement of Facts*, July 2004, 3.

<sup>55</sup> Andy Pasztor, "U.S. Reviews Payment to Boeing of \$412 Million Tied to C-17 Plan," *The Wall Street Journal* (Eastern edition), 10 August 2006, 6.

<sup>56</sup> Boeing, "Small Diameter Bomb Increment I Backgrounder," March 2007; available from [http://www.boeing.com/defense-space/missiles/sdb/docs/SDB\\_overview.pdf](http://www.boeing.com/defense-space/missiles/sdb/docs/SDB_overview.pdf); Internet; accessed 31 January 2008.

<sup>57</sup> Boeing News Release, "Boeing Awarded Small Diameter Bomb Contract," 3 October 2001; available from [http://www.boeing.com/news/releases/2001/q4/nr\\_011003b.html](http://www.boeing.com/news/releases/2001/q4/nr_011003b.html); Internet; accessed 1 February 2008.

<sup>58</sup> U. S. Government Accountability Office, "Statement Regarding Lockheed Martin Small Diameter Bomb Procurement Protest," 18 February 2005, 1, available from <http://www.pogo.org/m/cp/cp-02182005-GAO.pdf>; Internet; accessed 1 February 2008.

<sup>59</sup> U.S. Department of Defense, Office of the Inspector General – Audit, "Source Selection Decision for the Air Force Small Diameter Bomb Program (D-2005-091)," 12 July 2005, 6, available from <http://www.dodig.osd.mil/Audit/reports/FY05/05-091.pdf>; Internet; accessed 3 February 2008.

Rationale for delaying the requirement for SDB to address moving targets: growing costs of war caused a funding shortfall and wartime requirements drove an acceleration of the basic program. Air Force's Air Combat Command (ACC) could not fully fund the SDB program in their 2001 Program Objective Memorandum. The acquisition community and ACC explored several options to cover the shortfall. The senior leaders were also putting pressure on the program to deliver this weapon at an accelerated pace due to the war. After much debate, the Air Force eventually settled on deferring the moving target requirement to a later procurement called Increment II. Unfortunately, Lockheed Martin's moving target approach in their proposal excelled over Boeing's so the deletion now put them at a disadvantage in the competition. Due to conflicting information and inadequate documentation not all players were clear in how this Increment II would be addressed. In 2003, the Air Force planned to put the work on the Boeing contract with a sole source justification; Lockheed was not pleased. By 2004, Lockheed filed their protest and the GAO ruling made it clear the Air Force must compete the moving targets requirement.

<sup>60</sup> Boeing, "Small Diameter Bomb Increment II Backgrounder," February 2007, 1-2; available from [http://www.boeing.com/defense-space/missiles/sdb/docs/SDB\\_overview.pdf](http://www.boeing.com/defense-space/missiles/sdb/docs/SDB_overview.pdf); Internet; accessed 1 February 2008.

The second competition, SDB Increment II, is a lucrative contract awarded that has kept Boeing involved with the SDB program. In April 2006, the Air Force selected both Boeing (ironically partnered with Lockheed Martin) and Raytheon to compete in a \$287 million, 42-month risk reduction program. The winner will end up the sole producer of the weapon with contract award anticipated in late 2008 with a potential value of \$1.3-1.7 billion.

<sup>61</sup> U.S. Department of Defense, Office of the Assistant Secretary of Defense (Public Affairs), News Release, "Department of Defense Announces Contract Reviews," chart referenced in the article "Contracts Referred to IG," available from IG, <http://www.defenselink.mil/news/Feb2005/d20050214list.pdf>; Internet; accessed 16 January 2008.

The programs included National Polar-orbiting Operational Environmental Satellite System – Conical Microwave Imager Sensor, C-5 Avionics Modernization Program, Financial Information Resource System, C-22 Replacement Program (C-40), 60K Tunner Program Contractor Logistics, KC-135 Programmed Depot Maintenance, F-16 Mission Training Center, and C-40 Lease & Purchase Program.

<sup>62</sup> U.S. Department of Defense, Office of the Assistant Secretary of Defense (Public Affairs), News Release, "Department of Defense Announces Contract Reviews," available from <http://proquest.umi.com.library.carlisle.army.mil/pqdweb?did=1258208761&sid=1&Fmt=3&clientId=20167&RQT=309&VName=PQD>; Internet; accessed 16 January 2008.

<sup>63</sup> U.S. Department of Defense, Inspector General, "D-2006-104 Contract Award Process for the Financial Information Resource System," "D-2006-097 Source Selection for the National Polar-Orbiting Operational Environmental Satellite System – Conical Microwave Imager/Sounder," "D-2006-088 Adjusting the Price and Restructuring the KC-135 Depot Maintenance Contract," "D-2006-066 Report on the Procurement Processes and Procedures for the C-40 Lease and Purchase Programs and C-22 Replacement Program (C-40) (FOUO)," "D-2006-065 Procurement Procedures Used for F-16 Mission Training Center Simulator Services," "D-2006-059 Air Force Procurement of 60K Tunner Cargo Loader Contractor Logistics Support," and "D-2006-058 DoD Source Selection Procedures for the C-5 Avionics Modernization Program," all available from <http://www.dodig.osd.mil/Audit/reports/06report.htm>; Internet; accessed 4 February 2008.

<sup>64</sup> Stanley Holmes, "Cleaning Up Boeing," *Business Week*, 13 March 2006, 62.

<sup>65</sup> Jerry Markon and Renae Merle, "Ex-Boeing CFO Pleads Guilty in Druyun Case," *Washington Post*, 16 November 2004, p. E01, available from <http://www.washingtonpost.com/wp-dyn/articles/A51778-2004Nov15.html> <http://www.washingtonpost.com/wp-dyn/articles/A51778-2004Nov15.html>; Internet; accessed on 4 February 2008.

<sup>66</sup> George Cahlink, "Boeing CFO Gets Four-Month Jail Sentence," *Government Executive* (18 February 2005), available from <http://www.govexec.com/dailyfed/0205/021805g1.htm>; Internet; accessed 4 February 2008.

<sup>67</sup> Roseanne Gerin, "Boeing CEO Calls Settlement 'Tough But Fair'," *Washington Technology*, 2 August 2006, available from [http://www.washingtontechnology.com/online/1\\_1/29050-1.html](http://www.washingtontechnology.com/online/1_1/29050-1.html); Internet; accessed 3 February 2008.

<sup>68</sup> Colin A. May, "Go Forth without Fraud: Companies Planning to Compete for Homeland Security Funds through Government Grants and Contracts Must First Make Sure They Have a Strong Fraud Prevention Program in Place (Homeland Security)," *Security Management*, 1 June 2005, available from [http://goliath.ecnext.com/coms2/gi\\_0199-4376573/Go-forth-without-fraud-companies.html](http://goliath.ecnext.com/coms2/gi_0199-4376573/Go-forth-without-fraud-companies.html); Internet; accessed on 3 February 2008.

<sup>69</sup> Kim Hart and Renae Merle, "As Military Contracts Grow, So Do Protests," *Washington Post*, 27 February 2007 [newspaper on-line]; available from <http://www.washingtonpost.com/wp-dyn/content/article/2007/02/26/AR2007022601395.html>; Internet; accessed 17 March 2008.

<sup>70</sup> Amy Butler, "Win or Whine?; Defense Contractors Build Bid Protests into their Business Strategies," *Aviation Week & Space Technology* 167 (10 September 2007) 48.

<sup>71</sup> Ibid.

<sup>72</sup> Hart and Merle.

<sup>73</sup> Amy Butler, "Ripple Effect: Druyun Affair Still Impacting USAF Acquisition Corps," *Aviation Week and Space Technology*, 167 (10 September 2007) 50.

"The scandal drew widespread attention from a host of media outlets, including major newspapers that didn't used to pay close attention to the inner workings of the Pentagon's acquisition system aside from major contract award announcements. Since then, media have continued to track procurement issues in general and bid protests in particular, says Michael Golden, managing associate general counsel of the Government Accountability Office's procurement law division. This has added to the charged atmosphere in which the Air Force is attempting to choose a designer for its future aerial refueler fleet."

<sup>74</sup> Ibid.

<sup>75</sup> U.S. Department of Defense, Defense Science Board Task Force, *Management Oversight in Acquisition Organizations*, (Washington D.C.: Defense Science Board, March 2005), 1.

<sup>76</sup> Ibid., 3.

<sup>77</sup> U.S. Office of the Secretary of Defense, *Defense Acquisition Performance Report*, (Washington D.C: OSD, February 2006), available from <http://www.acq.osd.mil/dapaproject/documents/DAPA-Report-web/DAPA-Report-web-feb21.pdf>; Internet; accessed 5 February 2008.

<sup>78</sup> *John Warner National Defense Authorization Act*, Public Law 109-364, sec. 804 (2007).

<sup>79</sup> U.S. Secretary of Defense, *Defense Acquisition Transformation Report to Congress* (Washington D.C.: OSD, February 2007), 1, available from <http://www.acq.osd.mil/documents/804Reportfeb2007.pdf>; Internet; accessed 5 February 2008.

<sup>80</sup> Holly Ramer, "McCain Tells N.H. Voters to Ignore Money, Negative Ads," Associated Press Writer, 4 January 2008, available from [http://www.boston.com/news/local/new\\_hampshire/articles/2008/01/04/mccain\\_tells\\_nh\\_voters\\_to\\_ignore\\_money\\_negative\\_ads/?rss\\_id=Boston.com+---+New+Hampshire+news](http://www.boston.com/news/local/new_hampshire/articles/2008/01/04/mccain_tells_nh_voters_to_ignore_money_negative_ads/?rss_id=Boston.com+---+New+Hampshire+news); Internet; accessed 5 February 2008.

<sup>81</sup> Alyssa Rosenberg, "Study: Ethical Breaches Becoming Common in Government," *Government Executive.com*, 30 January 2008, available from [http://www.govexec.com/story\\_page.cfm?articleid=39160&dcn=todaysnews](http://www.govexec.com/story_page.cfm?articleid=39160&dcn=todaysnews); Internet; accessed 5 February 2008.

<sup>82</sup> U.S. Department of the Air Force, Presentation to the Air Land Subcommittee, Committee on Armed Services, U. S. Senate, *Air Force Acquisition Oversight, Statement of The Honorable Michael L. Dominquez, Acting Secretary of the Air Force*, April 2005, 1.

<sup>83</sup> Mrs. Druyun's position was initially abolished since the leaders did not want a civil servant amassing so much power again. It remained vacant until Mr. Reichers was hired in the spring of 2007. Ms. Payton reestablished the position as a politically appointed position to preclude a person occupying the position longer than an administration was in power.

<sup>84</sup> From February 2005 to November 2006, Mr. Reichers worked for Ms. Payton as the Chief of Operations, Advanced Concept and Technology Demonstration Program, Office of the Deputy Under Secretary of Defense for Advanced Systems and Concepts, the Pentagon, Washington, D.C. Ms. Payton was the Deputy Under Secretary of Defense for Advanced Systems and Concepts, Washington, D.C. from 2001 to 2006.

<sup>85</sup> Author's observations having worked with Mr. Reichers occasionally between 2002 and 2006 and frequently in 2007.

<sup>86</sup> Ginger Thompson and Eric Schmitt, "Life Was Lost in Maelstrom of Suspicion," *New York Times*, 4 December 2007, available from [http://www.nytimes.com/2007/12/04/us/04contractor.html?\\_r=1&oref=slogin](http://www.nytimes.com/2007/12/04/us/04contractor.html?_r=1&oref=slogin); Internet; accessed 9 February 2008.

<sup>87</sup> Author observed Mr. Reichers trying to implement this during his time in office.

<sup>88</sup> Thomson and Schmitt.